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DE RUEHBK #1119/01 0550829
ZNY CCCCC ZZH
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FM AMEMBASSY BANGKOK
TO RUEHC/SECSTATE WASHDC PRIORITY 6612
INFO RUCNASE/ASEAN MEMBER COLLECTIVE PRIORITY
RUCNIRA/IRAN COLLECTIVE PRIORITY
RUEHKO/AMEMBASSY TOKYO PRIORITY 7445
RUEHCHI/AMCONSUL CHIANG MAI PRIORITY 1318

C O N F I D E N T I A L SECTION 01 OF 04 BANGKOK 001119

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E.O. 12958: DECL: 02/24/2016
TAGS: [ENRG](#) [PREL](#) [EINV](#) [ETRD](#) [TH](#) [IR](#)
SUBJECT: THAILAND'S FORWARD ENGAGEMENT WITH IRAN

REF: BANGKOK 113

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Classified By: Ambassador Ralph L. Boyce for reasons 1.4 (b) and (d)

¶1. (SBU) SUMMARY: The fiftieth anniversary of diplomatic relations between the Kingdom of Thailand and Iran in 2005 showcased a growing mutual engagement between the countries. The previous year saw several high-level exchanges, particularly visits to Iran by Thailand,s Energy Minister, Foreign Minister, and HRH Princess Sirindhorn. Also in 2004, the Royal Thai Government (RTG) and PTT Exploration and Production Public Company Limited (PTTEP) signed memoranda of understanding on energy cooperation with Iran,s Deputy Minister of Petroleum for International Affairs. In April 2005 PTTEP contracted with National Iran Oil Company (NIOC) to explore and develop petroleum resources in the Saveh Block, south of Tehran. Two Thai firms have joined with Japan,s Itohchu to invest in a joint petrochemicals venture at Assaluyeh. Thai exports to (but not imports from) Iran have grown in recent years.

¶2. (C) The primary motive for Thailand,s engagement with Iran is the nation,s search for energy supplies to meet growing demand. Exploration in Iran represents one small element of a broader effort by the Ministry of Energy and leading firms to access foreign supplies. Looking ahead five years, Thailand is investing far more in Oman and Algeria in the Middle East, and will continue to invest primarily at home and in the Southeast Asian region. Investment in Iran is an example of Thailand pursuing new opportunities, usually at the invitation of foreign governments and in cooperation with foreign partners in countries where they will not have to compete with large US firms and other foreign majors. The Foreign Ministry has also explained that the RTG is reaching out to Muslim nations to assist it in dealing with the insurgency in the far south. END SUMMARY

GROWING BILATERAL ENGAGEMENT

¶3. (U) THE FIFTIETH ANNIVERSARY: 2005 marked the fiftieth anniversary of the establishment of diplomatic relations between the Kingdom of Thailand and Iran. This anniversary coincided with and showcased the two governments' mutual effort to open &a new era of our partnership,8 as Dr. Surakiart Sathirathai previously expressed the point in a speech he delivered as Foreign Minister during a September 2004 visit to Tehran.

¶4. (U) VIP VISITS: This mutual interest in broader cooperation expressed itself most openly during the 2004-2005 period in the form of exchanges of visits. The high point

was the visit of Her Royal Highness Maha Chakri Sirindhorn to Iran in April 2004 at the invitation of the then Vice President and head of the Department of the Environment, Mrs. Masoumeh Ebtekar. HRH Princess Sirindhorn discussed environmental cooperation with her hosts, and met then President Mohammad Khatami and his wife. The most regular visitors have been from Thailand's Ministry of Energy, including then Minister of Energy Prommin Lertsuridej, in December 2004. In April 2005, the Thai House Speaker Phokin Phonlakun hosted Iran's Prosecutor General Ayatolla Qorbanali Dorri Najaf-Abadi, who visited Bangkok to attend the Eleventh UN Congress on Crime Prevention and Criminal Justice that month. Officials from both sides spoke of Prime Minister Thaksin Shinawatra visiting Iran in 2005, but he neither said anything publicly nor made the trip. When the PM traveled to the Middle East in April 2005, he visited Oman and Jordan.

15. (U) REINVIGORATING THE JOINT COMMISSION: The Joint Commission on Economic, Commercial, Industrial, Technical, Agricultural, and Scientific Cooperation is a longstanding bilateral organ. It has existed for over 16 years, meeting only four times from 1990-1995. Then Foreign Minister Dr. Surin Pitsuwan visited Iran in 1998 and again in 1999, during which the Joint Commission apparently met once. It was revived in April 2002 with the sixth meeting co-chaired by Dr. Surakiart and Dr. Seyed Ahmad Motamedi, then Iranian Minister of Post, Telegraph, and Telephone. The sixth meeting focused on trade and investment, and resulted in two memoranda of understanding on energy cooperation later signed in January 2004.

16. (U) COOPERATION ON ENERGY AND TRADE: On January 29, 2004, following his visit to Iran, then Energy Minister Prommin and Dr. Nejad Hosseinian, then Deputy Minister of Petroleum for International Affairs of Iran signed a memorandum of understanding (MOU) covering the following five areas:

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- petroleum exploration and development between Thailand's PTTEP and the Iranian Ministry of Petroleum;
- conducting a feasibility study on Thailand importing liquefied natural gas (LNG) from Iran for domestic use;
- exchanges on usage of compressed natural gas (CNG) or natural gas for vehicles (NGV);
- inviting Iranian participation in the Thailand Petroleum Trading Center and the Strategic Energy Landbridge (SEL) projects; and
- cooperation on investment in Iran's petrochemical sector.

A second MOU signed the same day by Dr. Nejad Hosseinian and Mr. Maroot Mrigadat, President of PTTEP, grew out of the above-mentioned sixth Joint Commission meeting. The latter MOU covered cooperation between the two countries in the areas of petroleum exploration, development and utilization of petroleum and related products, as well as training and other technical assistance in oil and gas activities. In May 2004, also at Bangkok, the RTG and Iran signed a bilateral payments agreement to boost trade cooperation through expansion of credits for import and export trade.

17. (U) THE IRAN SAVEH PROJECT (CONCESSION AGREEMENT): On April 29, 2005, PTTEP informed the Stock Exchange of Thailand that PTTEP Iran Company Limited, its newly-created (on March 1, 2005) and wholly-owned subsidiary, would sign an Exploration and Development contract with the National Iran Oil Company (NIOC) the next day. PTTEP reports that PTTEP Iran Company Limited won the exploration rights for the Saveh Block after a round of bidding held by NIOC. According to the concession agreement, PTTEP Iran Company Limited will become the operator, with 100 percent interest, in the onshore petroleum exploration and development of Saveh Block, covering an area of 13,500 square kilometers and located approximately 200 km south of Tehran, adjacent to an exploratory block of China's Sinopec, where oil was recently discovered. The contract term is 25 years.

18. (C) SAVEH AS A LONG-TERM OPTION: PTTEP sources explained to ECONOFF that the Saveh Project is still in its earliest phases, noting that PTTEP would only have to evacuate three employees⁸ if the current crisis over Iran's nuclear power worsened. PTTEP's investment outlays planned for the next five years, announced at the company's analyst conference on February 3, 2005, likewise show negligible investment, in contrast with, for example, the Block 44 Project in Oman (which will receive 7 percent of the 2006 total and 3 percent of the total for 2006-2010) pursuant to a 2002 agreement with the Oman Ministry of Oil and Gas. No date is set for Iranian production, whereas the 443 and 416b projects in Algeria are projected to come on line in 2009. The same sources explained that PTTEP considers security of supply, fiscal regime, and country risk in making investment decisions, but that the company is not a large player globally, so it must pursue opportunities where it finds them.

19. (SBU) JOINT VENTURE IN PETROCHEMICALS: In conjunction with Japan's Itochu Corporation, Thailand's Cementhai Chemicals Company (CCC) and PTT Chemical Plc (PTT Chem) have invested in Iran's petrochemical sector through a holding company, Alliance Petrochemical Investment (Singapore) Pte. Ltd. (API). The joint venture to construct a high-density polyethylene plant near Bandar-Assaluyeh is named MEHR Petrochemical Company (MHPC), and is located in the Pars Special Economic/Energy Zone on the Iranian Coast. MHPC is 60-percent owned by API and 40 percent owned by Iran's National Petrochemical Company (NPC), a state-owned enterprise. According to CCC's director for the project, the aim is to develop the company's potential to produce for the Chinese market. PTT Chem representatives said their company's principal aim is to get an enhanced ticket⁸ to see the development of the petrochemicals industry in the Middle East region. MEHR is capitalized at \$230 million, of which \$155 consists of Japan Bank for International Cooperation buyer credits (\$59 million) to NPC and supplier credits (\$96 million) to Itochu. The remaining \$75 of equity is held by CCC (38 %), Itochu (12%), PTT Chem (10%) and NPC (40%), and the projected offtake of 300,000 tons per annum is to be divided according to the same proportion. The World Bank's Multilateral Investment Guarantee Agency (MIGA) has lined up to provide \$89 million investment insurance for Itochu and the other foreign investors in MHPC. The project is still in the planning stage. It is scheduled to become operational in the second quarter of 2008, but Thai company sources say that it is behind schedule.

10. (C) INSTITUTION BUILDING: Pursuant to the January 2004 MOU concluded by the two energy ministries, the two governments formed an Iran-Thailand joint working group to focus on expanding bilateral cooperation in the field of

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energy. As Pornchai Ruchiprapa, Deputy Permanent Secretary, Energy Ministry confirmed, the group is led by the deputy energy ministers of both countries, and it has met regularly to date. Bilateral cooperation has also emerged in other areas. Thailand's Chulalongkorn University and Iranian universities of Tehran, Isfahan, and Shiraz, as well as Islamic Azad University have signed agreements to exchange students and academic delegations. Other joint organizations have also formed such as the Thai-Iran Cultural and Economy Association (TICEA).

THE MOTIVE: THAILAND,S GROWING DEMAND FOR ENERGY

11. (C) GROWING DEMAND: The driving force behind Thailand's engagement with Iran, indeed the Middle Eastern region, is the country's growing demand for energy, and the dependence of its industries on foreign energy supplies. Estimates vary, but the Ministry of Energy (MOE) is planning for a 100 percent increase in electricity and oil demand over

the course of the next 15 years. According to Dr. Pornchai, Deputy Permanent Secretary, MOE, the government's overarching task is to find the sources of energy that will enable the country to meet this demand. According to MOE, Thailand presently consumes 1,965 KBD crude oil equivalent, and it is forecast to consume 3,650 in 2020, based on CAGR 4.3 percent from 2005 to 2020. With respect to electric power consumption, the ministry plans to add 1,500 megawatts per year for the next ten years, increasing capacity from 25,000 megawatts to over 45,000 in 2015. This projected expansion allows for a 15 percent reserve margin, and would entail building 23 new power plants.

¶12. (C) OIL IMPORTS: According to MOE, about 50 percent of energy consumed is oil (of which 90 percent is imported); the other 50 percent is in the form of electricity (from coal, hydro, and natural gas). In 2004 Thailand spent the equivalent of USD 25 billion on energy, accounting for 15 percent of GDP. Consumption by sector is as follows: transportation (31%), industry (36%), residential and commercial (21%), and agriculture (6%). In public, Ministry of Energy officials emphasize the role of energy savings and alternative fuels to meet the country's growing energy needs. When Embassy econoff and poloff met Deputy Permsec Pornchai at his office, the air conditioning did not turn on until 9:30, well after the work day was underway, in keeping with the ministry's public campaign to use less energy. Realistically, however, MOE officials are looking for only 10-15 percent per year, according to Dr. Pornchai. Alternative fuels may cut the share of crude oil to 43 percent of overall energy consumption in 15 years, time.

¶13. (C) THE SEARCH ABROAD FOR NEW ENERGY SUPPLIES: MOE officials and companies such as the electric power producer EGAT Plc and PTTEP are accordingly looking abroad. The first, and most important, area is the region across Thailand's immediate borders with its neighbors (and in their offshore waters). Laos, which already supplies some hydroelectric power, is expected to supply additional low-cost electricity from new dams. As set out in reftel, EGAT is likewise considering Burma as a source of hydroelectric-generated power. Resolution of a long-standing boundary dispute with Cambodia in the Gulf of Thailand over a 30,000 square kilometer area known as the Overlapping Claims Area (OCA) would open up this area containing hydrocarbon resources to exploration and development. The issue is still under negotiation between the RTG and the Cambodian Government, and is expected to be resolved eventually. PTTEP sources emphasized that gas from the OCA would have a significant cost advantage over LNG from the Middle East. Other onshore and offshore oil and gas sources include projects in cooperation with Vietnam, Malaysia, Burma, and Indonesia. Projects in the Middle East, especially the Block 44 project in Oman, along with the two concessions in Algeria, and one concession in Iran are part of Thailand's search abroad for new supplies.

THE CRISIS IN THAILAND'S FAR SOUTH AS A FACTOR

¶14. (C) Thailand's crisis in the far south Muslim-majority provinces provides another reason for the RTG to engage Iran, according to Udomsak Sritangos, Director of the MFA's Middle East Division. Thailand has been an observer of the Organization of the Islamic Conference since 1998. Since the crisis in the far south flared up, the OIC has monitored the situation there closely. Udomsak told POLOFF and ECONOFF that Thailand is searching for all of the Muslim friends it

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can get to assist in dealing with the Southern insurgency. The objective seems less to obtain specific action from Iran than to burnish the RTG's standing in the eyes of Muslim country governments and avoid being seen as anti-Muslim. All company representatives with whom the Embassy has spoken

emphasized the purely commercial aspects of their engagement with Iran and had no comment on such political issues.

THAILAND,S GROWING TRADE SURPLUS WITH IRAN

¶15. (U) EXPORTS: Thai exports to Iran have more than doubled in the past five years, with considerable fluctuation year-to-year. RTG Customs Department figures show exports totaling \$131.8 million in 2001, \$176.9 million in 2002, \$295.2 million in 2003, \$452.1 million in 2004, and \$313.3 million in 2005. Principal items exported included: machinery (20% of the 2005 total), electrical machinery (18%), rice (17%), rubber (7%), man-made staple fibers (7%), vehicles (4.5%), iron and steel (4%), plastics (4%), man-made filaments (3%), and glass and glassware (2.5%). (Note: Close examination of the Customs Department figures shows that Thailand,s machinery exports consisted primarily of air conditioning machinery, automatic data processing machines, refrigerators and freezers, washing machines, air or gas compressors, and parts or accessories for office machines. Its summary of export statistics, however, lists these machinery exports under the general HS-CODE 84 description, Nuclear Reactors, Machinery. Sub-category listings show that the goods exported to Iran consisted of the above machinery not nuclear reactors. End note.)

¶16. (U) IMPORTS: Thailand,s imports from Iran, by contrast, have actually declined on average in the past five years. RTG Customs Department figures show imports totaling \$76.3 million in 2001, \$61.8 million in 2002, \$72.2 million in 2003, \$40.4 million in 2004, and \$40.4 million in 2005. Principal items in 2005 included organic chemicals, copper plates and copper foil, copper ores and concentrates, mollusks fit for human consumption, iron and steel, sulphur, machinery, optical photo cine apparatus (i.e., instruments), edible fruits and nuts, and aluminum. Iranian customs statistics from 2001-2003, the years for which data is publicly available, confirm the above pattern in bilateral trade, although the precise totals differ.

¶17. (C) COMMENT: The Embassy views recent developments in Thailand,s engagement with Iran as an uptick in what remains a background relationship in Thailand,s overall foreign policy. For the foreseeable future, as regards engagement with Middle Eastern countries, Thailand has clearly made a bigger bet on Oman. The Block 44 project offers greater certainty, having been longer under development, and the country risk is decidedly lower. The Embassy agrees that the primary motive behind Thailand,s engagement with Iran is the broader search for new sources of energy abroad, both to supply Thailand with energy and to promote businesses growth.

All Thai contacts emphasized that Thailand,s companies are relatively small players on the international stage who compete abroad at a disadvantage with US majors and other multinationals. CCC,s director of the Iran petrochemical joint venture, for example, noted that company bids for projects in Oman and Qatar were both rejected. Accordingly, the argument goes, Thailand must pursue the opportunities that are available, and several mentioned their willingness to consider investment in Iraq.

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